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FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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IN REPLY REFER TO:

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

73-253

Honorable Max Baucus
United States Senate
706 Hart Senate Office Building
Washington, D.C. 20510-2602

Dear Senator Baucus:

This responds to your letter of November 19, 1993, addressing the 2 GHz Personal Communications Services (PCS) proceeding, GEN Docket No. 90-314. Your constituent, Michael J. Meldahl, President of Tri Touch America, Inc., expresses support for a PCS licensing structure that designates a 40 megahertz block of frequencies for a national license to be held by a qualified national consortium.

On September 23, 1993, the Commission adopted final rules to govern broadband PCS. The Commission allocated 120 megahertz of spectrum for licensed PCS and adopted licensing areas based upon Basic Trading Areas (BTAs) and Major Trading Areas (MTAs); 60 megahertz of spectrum were allocated for BTAs and 60 megahertz for MTAs. The allocation for MTAs is composed of two 30 megahertz frequency blocks, while the allocation for BTAs is composed of one 20 megahertz frequency block and four 10 megahertz frequency blocks. While the Commission did not adopt nationwide service areas in its broadband PCS proceeding, it did allow for the aggregation of service areas. Additionally, licensees may aggregate up to 40 megahertz in any one service area.

Consistent with the Omnibus Reconciliation Act, in a companion Notice of Proposed Rule Making, PP Docket No. (93-253) the Commission proposed to award PCS licenses by competitive bidding. The Commission proposed a two step procedure to allow bids for individual licenses and groups of licenses. Under this procedure, the Commission would first accept individual bids for each license within a given market. Then, the Commission would accept bids for a combination of licenses across markets. If the bid for the combined licenses exceeded the sum of the bids for the individual licenses, the Commission would award licenses to the bidder who submitted the combined bid; otherwise, the Commission would award the licenses to the individual bidders.

Honorable Max Baucus

2.

Thus, the Commission's decision would allow small telephone companies to form consortia to bid for regional or national licenses. We believe that this procedure should ensure that the spectrum allocated to PCS will be put to its highest valued use, whether that be for nationwide, regional, or local service.

The Commission's decisions addressing PCS are designed to foster competition among PCS providers and between PCS providers and cellular radio operators and to ensure expeditious provision of PCS in both urban and rural areas. I am enclosing the press releases for the dockets addressed above that more fully describe the Commission's actions.

Sincerely,

A handwritten signature in cursive script that reads "Thomas P. Stanley". The signature is written in dark ink and is positioned above the printed name and title.

Thomas P. Stanley
Chief Engineer

Enclosures

MAX BAUCUS
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United States Senate

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November 19, 1993

Ms. Linda Townsend Solheim
Director, Legislative Affairs
Federal Communications Commission
1919 M Street, N.W.
Room 808
Washington, D.C. 20554

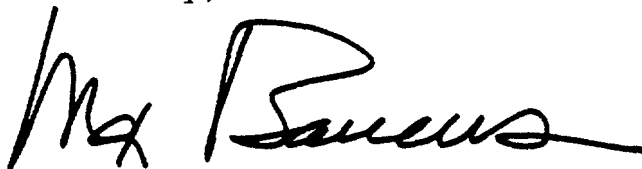
Dear Ms. Solheim:

Enclosed please find a letter from my constituent, Michael J. Meldahl, President of Tri Touch America, Inc., regarding his support for a national structure for Personal Communications Systems (PCS). The letter makes some very strong arguments in support of this proposal and, therefore, I believe it warrants individual consideration.

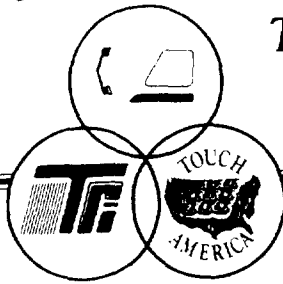
I appreciate your taking the time to review this correspondence and I look forward to hearing back from you on this matter.

With best personal regards, I am

Sincerely,



MSB/dwf
Enclosure



TRI TOUCH AMERICA, INC.



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September 21, 1993

The Honorable Max Baucus
SH-511 Hart Senate Office Building
Washington, D.C. 20510-2602

Dear Senator Baucus:

We wish to alert you to the upcoming September 23, 1993 decision of the Federal Communications Commission (FCC) to set the frequencies and the market structure for Personal Communications Systems (PCS), the new and revolutionary wireless telephone technology which will permit voice and data communication on an "anytime - - anywhere" basis. The outcome of the FCC's decision will determine the potential success of this new technology in the market place.

TRI Touch America believes that it is critically important that the Commission designate a 40 MHz block of frequencies as a national license to be held by a qualified national consortium. TRI Touch America believes the benefits of this approach include rapid deployment in both rural and urban areas, nationwide coverage and compatibility as well as economies of scale which will permit the fullest range of PCS features and network functions to be mass marketed. A consortium approach will also result in the diffusion of ownership and control of PCS networks. The consortium will stress local ownership and management in each market and provide for inclusion of small businesses, minority and female owned businesses as well as rural interests.

Over the past few days in the Washington Post and elsewhere you have probably seen more articles and heard more debate over the benefits of a nationwide PCS approach versus a more fragmented local approach than you could have possibly ever imagined existed. Let me take a moment and move from the emotional side of the issue to the reasoned economic one, particularly with regard to the rural service issue.

The success of PCS operators in providing widespread coverage of the United States is largely dependent on the operators' ability to earn fair returns on a high fixed-cost investment. The population density of prospective PCS service areas will drive the economics and influence the decision whether to invest in areas outside high density metropolitan markets.

A national approach to PCS licensing and operation provides four important economic benefits that will enable PCS operators to serve a larger percentage of the US market than would otherwise be economically feasible should small geographic license areas be adopted:

- Volume purchasing power of a unified large scale consortium will translate into lower capital costs for PCS handsets and especially for cell and switching equipment. Local level operators purchasing handsets in quantities of only thousands or tens of thousands may pay as much as 15% more for handsets than operators buying through a national consortium that purchases quantities in the millions. The result is lower handset costs. The savings are even greater on the infrastructure side. Cell equipment cost is the single largest component of capital investment. Local level operators who would otherwise buy in quantities of 20 to 100 cells may save as much as 30% by buying through a consortium that purchases cells in quantities of tens of thousands.
- Customer acquisition costs will be 20% higher for operators that are not part of a national consortium and which lack the ability to both market on a national scale and compete with the anticipated mass marketing power of the AT&T/McCaw merger.
- Operating and G&A costs will be 10% higher for a local level operator. Consortium advantages in this area include:
 - Volume purchase agreements for backhaul, the largest component of operating costs;
 - Centralized overhead functions for some billing, customer service and network management functions;
- Because of the higher business risk for a local level operator, interest cost on debt financing may be 2.5% higher, a large incremental cost for an industry that will be highly leveraged.

The impact of these increased costs on PCS financials are as follows:

- Year 5 operating income is lower than under a national cost structure.
- Internal rate of return on investment drops (not including spectrum cost).

The conclusion is inescapable: a national PCS consortium yields important financial benefits for the local operators which translate into better provision of PCS service. We estimate the PCS consortium will lower the population density threshold required for an economically viable investment from approximately 118 pops per square mile to approximately 68. The net result is the possibility that the consortium can economically cover 385 more counties and 9% more of total US pops bringing PCS service availability to 23 million more people than under a fragmented local approach using smaller geographic license areas.

None of these benefits will be realized unless the FCC adopts a national licensing scheme and ensures that national licensees are given sufficient bandwidth on which to operate. The spectrum allocated to PCS is currently occupied with existing users and is particularly congested in many urban areas. An allocation of 40 MHz to the national licensee would permit it to circumvent the congestion and still provide an adequate level of service across the country.

I hope you will keep these benefits in mind as you consider the important rural service issues at stake in the PCS licensing proceedings. I would be pleased to answer any further questions you may have regarding the status of the PCS proceeding or TRI Touch America's participation in the national PCS consortium.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael J. Meldahl". The signature is fluid and cursive, with a large loop at the end.

Michael J. Meldahl
President

MJM/nr